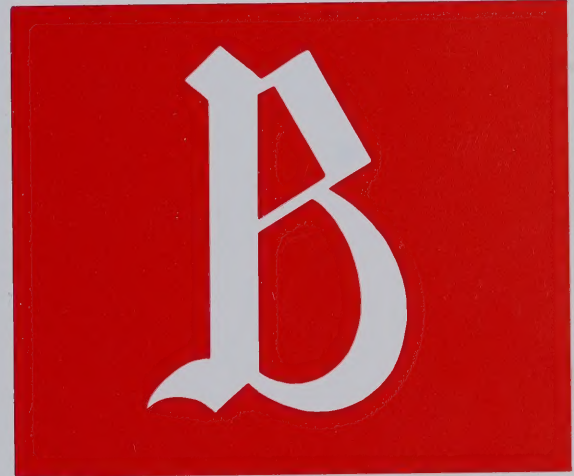


AR32

BILTMORE
annual report



1973

comparative financial highlights

	Period ended December 31, 1973	Period ended December 31, 1972		
	CONSOLIDATED 12 months	CONSOLIDATED 12 months	CONSOLIDATED 14 months	COMBINED 12 months
Sales	6,058,752.	3,387,034.	3,842,809.	5,669,673.
Profits before taxes	377,277.	222,734.	256,731.	512,062.
Profits after taxes	220,527.	109,334.	127,431.	256,062.
Earnings per share				
Undiluted	62.9¢	28.0¢	35.5¢	75.5¢
Fully Diluted	48.3¢	26.2¢	30.6¢	55.9¢
	Represents operations of Biltmore, Custom and Watson for 1973.	Represents operations of Biltmore for twelve months and Custom for two months.	Represents operations of Biltmore for fourteen months and Custom for two months.	Represents operations of the three companies assuming the acquisitions had been made on January 1, 1972. Adjustments were made for imputed interest and salaries to make the figures comparable to future operations.

the president's report

On behalf of the Board of Directors, I am pleased to present the Annual Report Earnings for the 12 months ending December 31, 1973 were \$220,527 or 62.9¢ per share (48.3¢ per share fully diluted) as compared to \$109,334 or 28.0¢ per share (26.2¢ per share fully diluted) for the twelve months ending December 31, 1972. This substantial increase was the result of higher headwear earnings and the inclusion of the earnings of WATSON BROTHERS LIMITED, our neckwear subsidiary acquired in January, 1973. These positive factors were partially offset by the disappointing results of CUSTOM LEATHER PRODUCTS LIMITED, acquired in October of 1972.

Both sales and profits from BILTMORE'S headwear operations increased substantially last year. A 17.3% dollar sales increment resulted from volume and price increases, improved product mix, and higher sales to the United States. In spite of cost pressures we were able to slightly improve margins last year. We are being faced with cost increases in all areas of the business; some of which are drastic! Several major materials such as fur, are costing over double compared to last year. These pressures have necessitated substantial price increases in our products for delivery in the Fall of 1974, our major shipping season. It is our hope that we will be able to maintain these prices without further changes throughout this season.

WATSON BROTHERS LIMITED, fine quality neckwear manufacturers, had an excellent year in 1973. Both sales and profits were ahead of the previous year. Under the strong leadership of Mr. William A. Detenbeck, the company has strengthened its management team and improved its position in the Canadian Market. We are happy to advise that the earnings of WATSON BROTHERS LIMITED were more than sufficient to warrant full payment on that part of the notes payable contingent on 1973 earnings.

CUSTOM LEATHER PRODUCTS LIMITED results were disappointing. Sales were off 10.1% from the previous year and losses were incurred. Corrective action is being taken. Management has been strengthened in both sales and manufacturing areas. Cost and inventory controls have been initiated. Rationalization of the product lines has begun. Against an atmosphere of softening demand for the company's major product — belts — and increasing costs, we are endeavouring to do all possible to return the company to a profitable basis. As a loss was incurred, no payment was required on the notes payable contingent on the 1973 performance.

Mr. Norman McMillan has resigned as President of Biltmore Industries Limited but will continue as Chairman of the Board. On behalf of my fellow employees, our customers, shareholders, and the Board of Directors, I extend our sincere gratitude for many years of excellent leadership. We look forward to his continuing counsel as Chairman.

We also extend our appreciation for the full support and co-operation of our co-workers as well as thousands of retailers from coast to coast, all of whom have contributed to our operations in 1973.

ON BEHALF OF THE BOARD OF DIRECTORS,



Michael McMillan,
President.

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARIES

consolidated statement of income

	Year Ended December 31 1973	Fourteen Months Ended December 31 1972
Sales	\$6,058,752	\$3,842,809
Cost of sales	4,067,744	2,503,215
Selling, general and administrative expenses	1,613,781	1,082,863
	<u>5,681,525</u>	<u>3,586,078</u>
Income before taxes	377,227	256,731
Income Taxes	156,700	129,300
Net Income	<u>\$ 220,527</u>	<u>\$ 127,431</u>
Earnings per common share based on the weighted average number of shares outstanding during the period	62.9¢	35.5¢
Fully diluted earnings per share (Note 11)	48.3¢	30.6¢

consolidated statement of retained earnings

Balance at beginning of period:		
As originally stated	\$1,133,885	\$1,085,819
Deduct adjustment of provision for employees' retirement plans related to prior years	<u>—</u>	<u>16,257</u>
As restated	1,133,885	1,069,562
Net income	220,527	127,431
	<u>1,354,412</u>	<u>1,196,993</u>
Dividends:		
Preferred shares	39,464	52,800
Common shares	<u>—</u>	<u>10,308</u>
	39,464	63,108
Balance at end of period	<u>\$1,314,948</u>	<u>\$1,133,885</u>

consolidated balance sheet

Assets

	December 31	
	1973	1972
Current:		
Cash	\$ 173,494	\$ 50,000
Accounts receivable	1,484,403	1,165,635
Inventories (Note 4)	1,421,449	1,019,912
Prepaid expenses	7,521	12,061
	<u>3,086,867</u>	<u>2,247,608</u>
Cash surrender value of life insurance	17,210	13,184
Fixed assets, at cost (Note 5)	1,526,568	1,442,998
Less - Accumulated depreciation	1,164,682	1,099,812
	<u>361,886</u>	<u>343,186</u>
Deferred income tax charges	17,000	21,200
Excess of cost of shares in subsidiaries over net book value of assets acquired	276,950	101,057
	<u>\$3,759,913</u>	<u>\$2,726,235</u>

Approved on Behalf of the Board:

Norman McMillan, Director

D. Michael McMillan, Director

Liabilities

	December 31	
	1973	1972
Current:		
Bank advances (Note 6)	\$1,290,865	\$ 555,300
Accounts payable and accrued liabilities	818,847	570,071
Notes payable	50,000	64,572
Income taxes payable	14,946	75,084
Dividends payable	9,444	23,908
Current portion of long-term debt	8,700	39,199
	<u>2,192,802</u>	<u>1,328,134</u>
Long-term debt (Note 7)	16,700	28,753
	<u>2,209,502</u>	<u>1,356,887</u>
Shareholders' Equity		
Capital stock (Note 8)	235,463	235,463
Retained earnings	1,314,948	1,133,885
	<u>1,550,411</u>	<u>1,369,348</u>
	<u>\$3,759,913</u>	<u>\$2,726,235</u>

consolidated statement of changes in financial position

	Year Ended December 31 1973	Fourteen Months Ended December 31 1972
Funds were provided by:		
Operations —		
Net income	\$ 220,527	\$ 127,431
Add (deduct) charges (credits) which (do not affect current funds)		
Depreciation and amortization	47,499	31,018
Deferred income taxes	4,200	(4,500)
	<hr/> 272,226	<hr/> 153,949
Cash surrender value of life insurance policy	—	46,852
Value ascribed to common shares issued on acquisition of subsidiary	—	149,988
Sale of investments	—	14,240
Sale of fixed assets	5,148	4,675
	<hr/> 277,374	<hr/> 369,704
Funds were used for:		
Purchase of fixed assets, including \$12,911 in 1973 and \$63,186 in 1972 relating to acquisition of subsidiaries	71,346	73,526
Increase in cash surrender value of life insurance in subsidiary	4,026	13,184
Reduction of long-term debt	14,079	26,911
Dividends	39,464	63,108
Excess of cost of shares in subsidiary company over net book value of assets acquired	173,868	91,057
	<hr/> 302,783	<hr/> 267,786
Increase (decrease) in working capital	(25,409)	101,918
Working capital at beginning of period	919,474	817,556
Working capital at end of period	<hr/> <u>\$ 894,065</u>	<hr/> <u>\$ 919,474</u>

notes to consolidated financial statements

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

2. ACQUISITION OF WATSON BROTHERS LIMITED

On January 5, 1973 the Company acquired the outstanding shares of Watson Brothers Limited for a consideration comprising:

- (i) cash of \$357,000
- (ii) an \$80,000 note payable on April 30, 1973, and
- (iii) contingent additional amounts payable over a four year period, as determined by a formula based upon the acquired Company's earnings, not to exceed in the aggregate \$250,000.

Under the terms of the formula in (iii) above \$50,000 of the contingent amounts has become due in respect of the year ended December 31, 1973 and this amount is included in notes payable at that date. The contingent amounts payable have correspondingly been reduced to \$200,000.

The balance of the contingent consideration noted above is represented by a note convertible at the option of the holder into a maximum of 54,858 common shares at the rate of 1 common share for each \$3.50 principal amount determined to be payable in the years 1974 and 1975 and 1 common share for each \$3.75 principal amount determined to be payable in the years 1976 through 1978.

3. CHANGE OF NAME

On July 6, 1973, the Company obtained supplementary letters patent which authorized the Company to change its name from Biltmore Hats Limited to Biltmore Industries Limited (Les Industries Biltmore Limitée).

4. INVENTORIES

Inventories are stated at the lower of cost and net realizable value and comprise the following:

	December 31	
	1973	1972
Raw materials and supplies	\$ 589,784	\$ 567,025
Work-in-process	327,045	205,384
Finished goods	504,620	247,503
	\$ 1,421,449	\$ 1,019,912

5. FIXED ASSETS

The major categories of fixed assets and related accumulated depreciation and amortization (calculated using primarily the declining-balance method) are as follows:

	December 31		December 31	
	1973		1972	
	Cost	Accumulated Depreciation and Amortization	Net	Net
Land	\$ 1,850	—	\$ 1,850	\$ 1,850
Buildings	430,167	205,806	224,361	230,492
Machinery and equipment	1,059,149	948,314	110,835	90,874
Leasehold improvements	35,402	10,562	24,840	19,970
	\$1,526,568	\$1,164,682	\$ 361,886	\$ 343,186

6. BANK LOANS AND ADVANCES

The Company has pledged accounts receivable with a carrying value of \$953,497 as security for bank advances of \$916,056. These advances are also guaranteed by two of the Company's subsidiaries.

A subsidiary has pledged accounts receivable and inventory with a carrying value of \$787,328 as security for its bank advances of \$374,809.

7. LONG-TERM DEBT

Notes payable to April 30, 1980	\$25,400
Less—Current portion of long-term debt	8,700
	\$16,700

8. CAPITAL STOCK

(a) Changes by supplementary letters patent—

On July 6, 1973, the Company obtained supplementary letters patent which authorized—

(i) the cancellation of the 2,000 Convertible Class A Preferred shares converted into Class B Preferred shares in 1973.

(ii) the reclassification of the 82,000 issued and outstanding Class B Preferred shares and 918,000 unissued Class B Preferred shares as 82,000 issued and outstanding common shares and 918,000 unissued common shares.

(iii) the redesignation of the Convertible Class A Preferred shares as Convertible Preferred shares.

(b) Authorized —

158,000 Convertible Preferred shares without par value, entitled to cumulative dividend of 25¢ per share per annum, each convertible into common shares on a share for share basis.

2,000,000 common shares without par value.

(c) Issued

	1973	1972*
157,400 Convertible Preferred shares (160,000 in 1972)	\$ 33,635	\$ 34,190
288,750 common shares (including 2,000 former Class B shares redesignated as common shares by the supplementary letters patent and 600 shares issued on conversion of preferred shares subsequent to supplementary letters patent)	201,828	201,273
	235,463	235,463

* comparative figures for 1972 have been restated to give effect to the changes outlined in part (ii) of paragraph (a).

(d) Common shares reserved —

For the conversion of Class A shares	157,400
For the exercise of options	15,000
For the conversion of notes payable—	
See Note 2	54,858
See Note 10	46,153
	273,411

notes to consolidated financial statements

continued

9. OPTIONS

On June 9, 1972 the Company granted an option to an officer to purchase a total of 15,000 common shares at a price of \$3.25 per share. The option, which expires on June 8, 1977, entitles the holder to purchase on a cumulative basis up to 3,000 common shares in each year of the option period.

10. OTHER CONTINGENT LIABILITY

Under the terms of an agreement pertaining to the acquisition of the shares of a subsidiary in 1972 the Company may be obligated to pay, over a four year period, as determined by various formulae based on earnings, additional amounts not to exceed in the aggregate \$360,000. Part of this contingent consideration is represented by a note convertible at the option of the holder or the Company into a maximum of 46,153 common shares at the rate of one common share for each \$3.25 of principal amount determined to be payable on March 31, 1976.

11. EARNINGS PER SHARE

Fully diluted earnings per share have been calculated assuming conversion of convertible shares and the exercise of outstanding options. In calculating such earnings a return of prime bank rate on the proceeds of the exercise of options has been assumed. The calculation does not include the shares which may arise as a result of the circumstances described in Notes 2 and 10 because their issuance is wholly dependent on higher earnings accruing in the subsidiaries in future years.

12. STATUTORY INFORMATION

The following items are included in the consolidated statement of income:

	1973	1972
Remuneration of directors and officers	\$ 200,691	\$ 164,464
Depreciation and amortization	47,499	31,018
Interest on long-term debt	2,073	2,767

auditors' report To the Shareholders of Biltmore Industries Limited:

We have examined the consolidated balance sheet of Biltmore Industries Limited (formerly Biltmore Hats Limited) and its subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Biltmore Industries Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We did not examine the financial statements of one of the consolidated subsidiaries which statements reflect total assets and revenues constituting 24% and 25% respectively of the related consolidated totals and we have relied on the report of the auditors who have examined the financial statements of this subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Price Waterhouse & Co.

corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

* MICHAEL F. K. CARTER, Mississauga, Ontario
WILLIAM A. DETENBECK, Port Credit, Ontario
D. MICHAEL McMILLAN, Guelph, Ontario
NORMAN McMILLAN, Guelph, Ontario
* ANDREW SARLOS, Toronto, Ontario
PHILIP M. SPICER, Hamilton, Ontario
DAVID B. WELDON, London, Ontario
JOHN A. YOUNG, Kitchener, Ontario

** resigned April 30, 1974*

Officers

NORMAN McMILLAN, Chairman of the Board
D. MICHAEL McMILLAN, President
NORMAN B. IRWIN, C.A., Secretary-Treasurer
JOSEPH G. WEIST, Manufacturing Manager

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Hamilton, Ontario

Registrar and Transfer Agents

CANADA PERMANENT TRUST COMPANY, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario

WB





AR32

BILTMORE INDUSTRIES
GUELPH - CANADA
Limited

BILTMORE INDUSTRIES
GUELPH CANADA
Limited

*Six Months Report
June 30th, 1973*

BILTMORE INDUSTRIES LIMITED

and subsidiary companies

Dear Shareholder:

On behalf of the Board of Directors of the company, I submit the unaudited financial statements for the six months ending June 30th. The 1973 statement includes the operations of Biltmore Hats Ltd., Watson Bros. Ltd., and Custom Leather Products Ltd., while the 1972 statement reflects the operations of Biltmore Hats Ltd. only.

Activity in all areas of the headwear business are well ahead of last year. Our 1973 objective of penetration into the U.S. market has already been achieved at this writing. The Canadian market has also been quite strong, with bookings showing substantial increases over last year. On the negative side, we are experiencing sharp raw material and labour cost increases, which must be reflected in higher prices in the future.

Watson Bros. Ltd., neckwear manufacturers, have performed well over the first 6 months. Operations have continued efficiently and profitably. Custom Leather Products Ltd. have suffered from a sharp decline in margins. Steps are being taken to return margins at Custom to their previously satisfactory level.

At the Annual Meeting, the shareholders approved three by-laws. The Board of Directors was increased from five to eight, and we welcome as new directors, Mr. Michael Carter, Mr. William Detenbeck, and Mr. David Weldon. The company's name has been changed from Biltmore Hats Limited to Biltmore Industries Limited to reflect the broader scope of the company's activities. The shareholders also approved the conversion of all authorized and issued Class B Preferred shares into Common shares. This move should increase the marketability of the company's shares, and help to un-complicate its share structure. Approval of these changes has just been received from the Department of Corporate and Consumer Affairs.

A dividend of six cents (6c) has been declared on Class A shares payable on or after October 15th to shareholders of record on September 28th.

On behalf of the Board of Directors,

Norman McMillan,
President.

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 1973
(with comparative figures for 1972)

	1973	1972
Sales	2,154,297.	848,102.
Cost of sales	1,453,793.	589,486.
Selling, general and administrative expenses	639,786.	296,182.
Income (Loss) before taxes	2,093,579.	885,668.
Income taxes	60,718.	(37,566.)
Net Income (Loss) for period	35,218.	(37,566.)
Earnings (Loss) per common share based on the weighted average number of shares outstanding during the period	5.7c	(24.0c)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 1973
(with comparative figures for 1972)

	1973	1972
Operations		
Net income (Loss) for period	35,218.	(37,566.)
Add depreciation, and amortization not involving an outlay of funds	21,740.	12,502.
Sale of investments	56,958.	(25,064.)
Sale of fixed assets	14,467.	14,240.
	71,425.	850.
		(9,974.)

APPLICATION OF FUNDS

Additions to fixed assets, including \$12,911 relating to acquisition of subsidiary in 1973	58,372.	6,987.
Dividends	20,540.	19,600.
Reduction of long-term debt	5,986.	36,764.
Increase in cash surrender value of life insurance in subsidiary	3,450.	—
Excess of cost shares in subsidiary company over net book value of shares acquired	125,894.	—
	214,242.	63,351.
Decrease in working capital	(142,817.)	(73,325.)
Working capital at beginning of period	919,474.	877,756.
Working capital at end of period	776,657.	804,431.